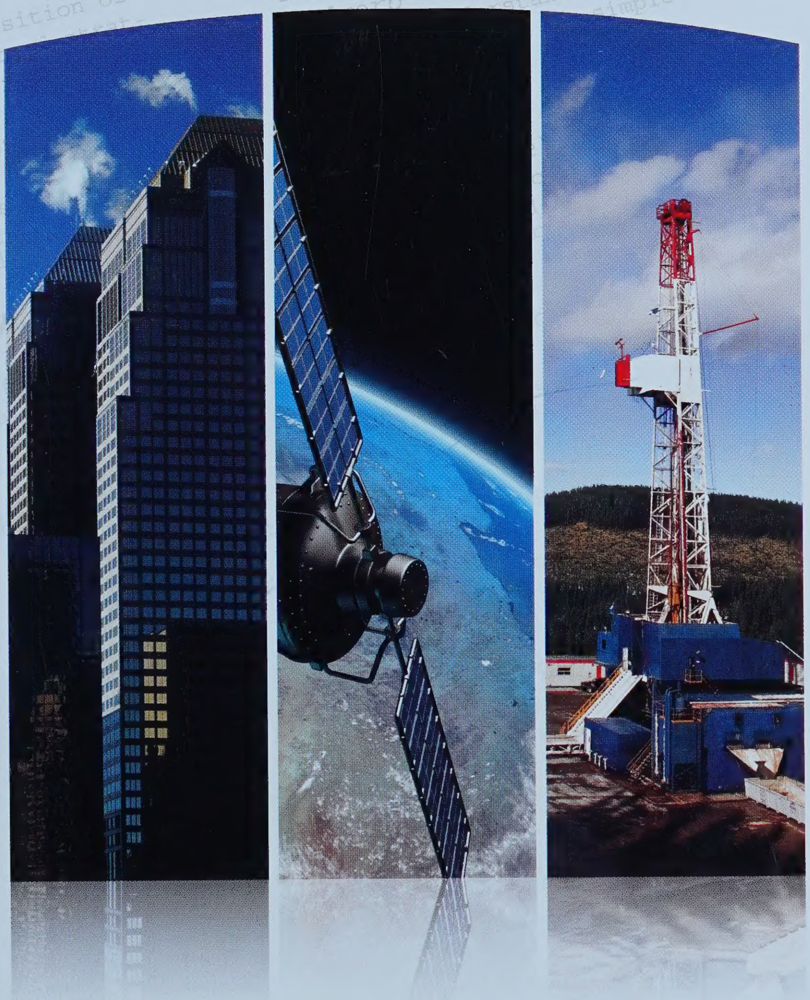
2008 annual report



pason

defined.

Pason

Pason Systems Inc. is the world's largest provider of rental oilfield instrumentation systems that are designed and manufactured for use on land-based drilling and service rigs. Pason offers a tightly integrated package of complex services including data acquisition, wellsite reporting software, remote communications and Internet information management tools.

Pason's strategic focus on providing unique proprietary solutions and the industry's best standard of customer care gives it a competitive advantage by bridging the physical separation between the remote wellsite and the office. Leveraging these services on its dominant Canadian wellsite presence, a leading position in the United States, and growing operations in Latin America and Australia, has created consistent revenues from each product line and an annual average of 27% return on shareholders' equity over the past decade.

Pason is a Canadian corporation with its head office located in Calgary, and United States offices in Golden and Houston. Common shares of Pason Systems Inc. are listed for trading on the Toronto Stock Exchange under the ticker symbol PSI.

pason

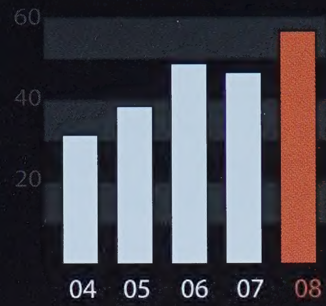
2008 annual report

Written, designed, and produced entirely by Pason employees.

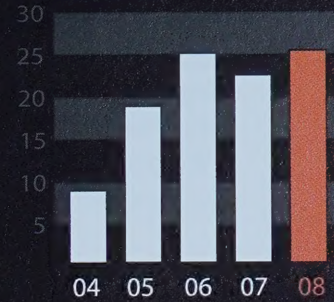
Rental Revenue ($Millions)

EDR Revenue

PVT Revenue



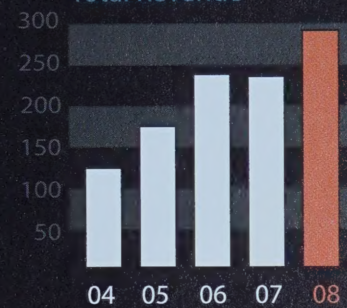
Communications Revenue



Automatic Driller Revenue

TGAS Revenue

Total Revenue



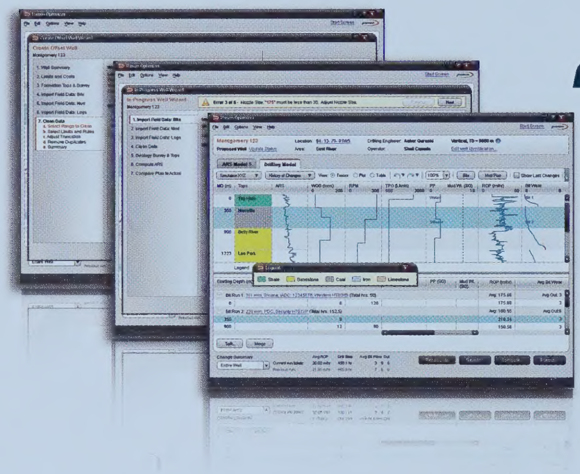
Performance Data

	Three months ended December 31,			Years ended December 31,		
	2008	2007	Change	2008	2007	Change
(000s, except per share data) (unaudited)	($)	($)	(%)	($)	($)	(%)
Revenue	84,617	60,548	40	292,528	236,439	24
EBITDA (1)	32,415	32,179	1	144,883	128,088	13
As a % of revenue	38.3	53.1	(28)	49.5	54.2	(9)
Per share – basic	0.40	0.40	--	1.78	1.61	11
Per share – diluted	0.40	0.40	--	1.77	1.59	11
Funds flow from operations (1)	31,287	26,462	18	124,726	103,766	20
Per share – basic	0.38	0.33	15	1.53	1.30	18
Per share – diluted	0.38	0.33	15	1.52	1.29	18
Earnings	12,639	15,503	(18)	61,321	55,052	11
Per share – basic	0.15	0.19	(21)	0.75	0.69	9
Per share – diluted	0.15	0.19	(21)	0.75	0.68	10
Common share dividends per share	0.12	0.085	41	0.22	0.16	38
Capital expenditures	12,641	19,013	(34)	56,292	76,615	(27)
Working capital	152,337	77,806	96	152,337	77,806	96
Total assets	427,016	302,593	41	427,016	302,593	41
Shareholders' equity	354,589	270,717	31	354,589	270,717	31
Return on shareholders' equity (1)	--	--	--	20	22	(9)
Market capitalization	1,144,500	1,003,500	14	1,144,500	1,003,500	14
Weighted average Common shares outstanding (#)	81,799	80,224	2	81,426	79,586	2

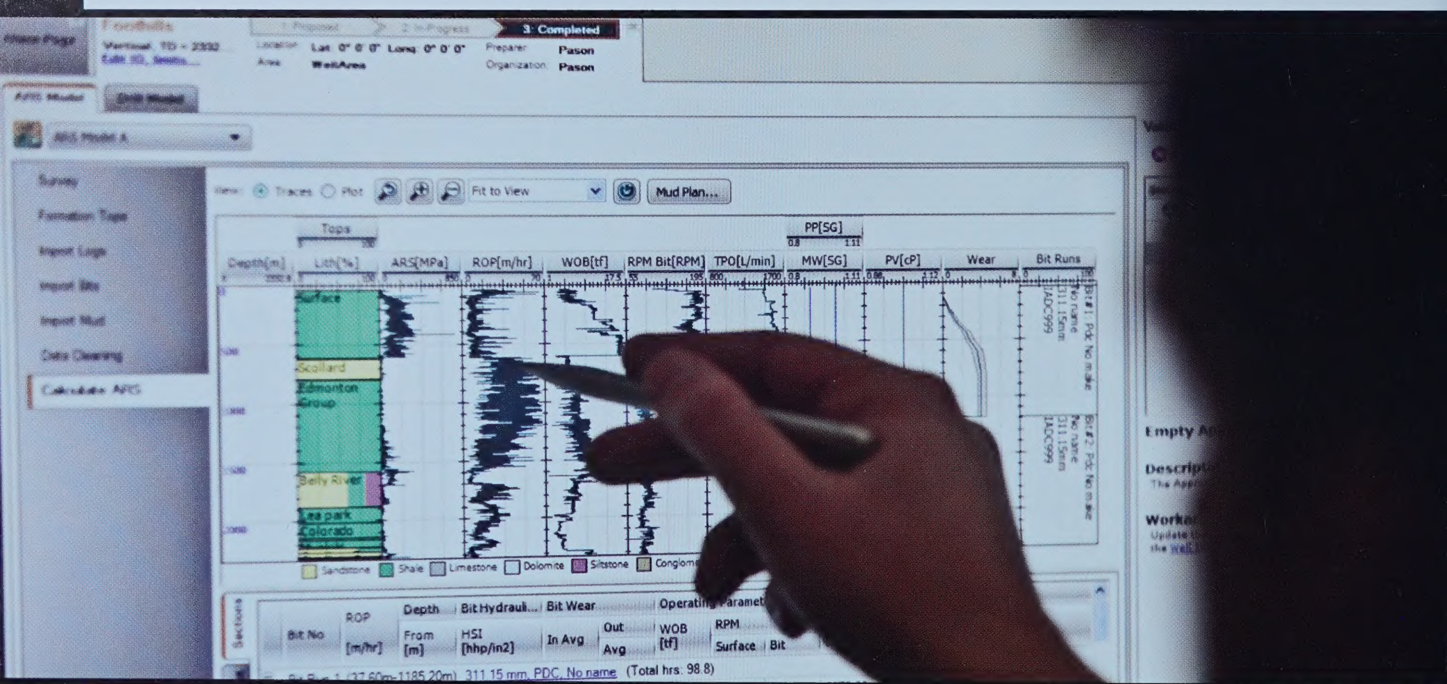
(1) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense, future income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. Return on shareholders' equity is calculated as earnings over the simple average of the beginning and ending shareholders' equity. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Optimizer

The Pason Optimizer is a standalone drilling simulation tool that greatly reduces operational costs by creating the least expensive and most efficient approach to drilling a well. This software-based product allows drilling engineers to simulate operating parameters to design an optimal drill plan. In addition, refinements can be made to the drill plan during drilling operations based on current drilling information. A drill plan generated by the Optimizer helps drilling engineers extract greater value from their drilling data, maximize drilling efficiency, and reduce drilling days.



"Drilling optimization has the potential to revolutionize the drilling process."



Remote Directional System

The Pason Remote Directional System is a cost-reduction solution for directional drilling companies. Using existing Pason infrastructure, this software-based product transmits drilling information and provides remote access to the data. The Remote Directional System facilitates communication between rig personnel and directional drilling technicians, provides support for directional drilling tools, and allows directional drilling technicians to monitor multiple wells from any Internet-enabled computer. This product reduces overall service costs and increases employee safety by minimizing the number of workers at the rig site.

> "The directional drilling market is under continuing pressure from operators to reduce costs significantly, and Pason's model of remote data management continues to attract substantial interest."

Mission

Technology

As leaders in innovation, our rental oilfield instrumentation and data acquisition systems bridge the physical separation between remote rig sites and the office. Designed for use on land-based drilling and service rigs, our accurate and easy-to-use technology maximizes rig uptime, improves the efficiency of rig operations, and minimizes operating costs. We've increased our operational efficiency to allow more time to focus on the creation of innovative, reliable, durable, and intuitive technology.

Deployed

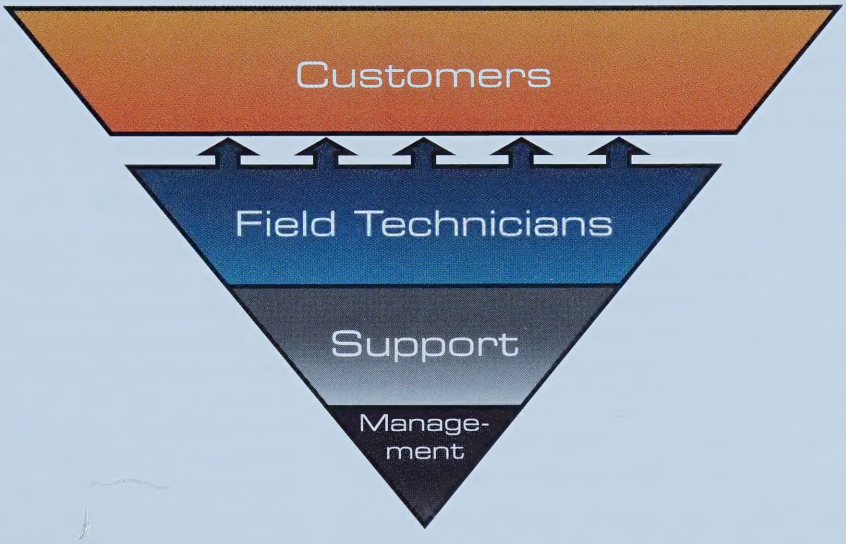
By employing professional field service technicians and using a highly distributed field service structure, we've earned a reputation for providing excellent service. We deploy products and assistance to the field simply and quickly, 24 hours a day, 7 days a week. In addition, our Technical Support Centre staff can log on and assist rig site personnel with training and troubleshooting, and our broadband satellite network equipment allows us to remotely apply system upgrades. The deployment of these services contributes to the industry's best standard of care.

Simply

Our products are carefully designed to be simple to install, use, and maintain. Our services are supported by our field service technicians and knowledgeable Technical Support Centre personnel. By continuing to look critically at our operations and simplifying our processes as a company, we can focus on what's important: our customers.

Our Commitment to Service

Far from the traditional top-down organizational structure, this inverted pyramid displays our unique organizational arrangement. As shown, management and support services (R&D and administration) act as a foundation that supports our front line service providers. With this support, our field service technicians can remain committed to serving our customers' needs. In addition, this strong customer service relationship improves two-way communication between the field and the office which assists us in improving our product line.



To Pason Shareholders

In looking back at last year's letter, I referred to 2007 as a "decidedly mixed" year. Unfortunately, as events played out in 2008, the rest of the world and I had no idea at that time how mixed a year could be. The first half of 2008 turned out to be surprisingly strong and we made huge gains in the United States until the double hit of low commodity prices and a worldwide recession caused rig activity to begin a steep plunge late in the year. As a result, we ended 2008 with considerable concern despite completing a record year in all financial metrics, before a provision relating to our U.S. automatic driller suit which I will discuss later. Revenue was $292.5 million, up 24% from 2007, while funds flow from operations was $124.7 million or a 20% gain. With the automatic driller provision removed, EBITDA and net earnings improved by 26% and 33% respectively. After deducting a US $14.3 million pre-tax charge for a possible automatic driller patent infringement judgment, net income was still $61.3 million, an increase of $6.3 million over 2007. Fully diluted earnings per share were $0.75 compared to $0.68 in the prior year.

> "Revenue was $292.5 million, up 24% from 2007, while funds flow from operations was $124.7 million or a 20% gain."

While clearly 2008 ended with disappointment for many companies, it was challenging for us in the United States to see all of our gains made over the first ten months of the year effectively given back in the last two months. During the year, we added 300 rigs to reach almost 1,200 active rigs with at least one Pason product installed, only to end the year right back where we started at 900. Overall for 2008, our U.S. business unit increased revenue 31% to $174.9 million and segment operating profit was $72.9 million, an improvement of 24%. Our revenue per industry day also showed good growth to $242 versus $196 in the prior year. During the year, we placed more effort on improving margins in our geological services business which was rewarded with a meaningful margin of $5.4 million compared to $4.2 million achieved in 2007, despite the major fall off in activity late in the year.

In Canada, our segment profitability also improved, led not so much by increased revenue in a flat drilling market, but more from improved field management and improved field margins. Revenue increased by 13% to $107.8 million while our segment profit came in at $45.2 million, an increase of 12% from 2007. Our revenue per industry day was up slightly at $781 compared to $770 in 2007. While we continued to grow revenue with our new hazardous gas alarm system, gains in our remote directional system, drilling optimization software, and electronic service recorder did not occur as expected. We expect that 2009 will be a much stronger year for both our remote directional system and drilling optimization software.

> "Our U.S. business unit increased revenue 31% to $174.9 million and segment operating profit was $72.9 million, an improvement of 24%."

Our international business grew slightly with segment operating profit flat at $4.8 million. During the year we reduced our revenue share with our South American partner from 67% to 50% which negatively impacted our revenue despite increasing rigs. We did this with the realization that our partner will need to add senior manager resources to provide corporate services for the half dozen South American countries in which he works. Late in the year, we also rolled Mexico under this Latin American business unit and we believe this move will increase our market penetration in that country. We also plan to begin demonstrating our equipment in Russia, on a small scale, in the second quarter of this year.

Never in my nearly 30 years of oilfield experience has the past seemed so irrelevant or an assessment of the future so vital. Simply put, the oil and gas industry is in for tough times due to low commodity prices that are being negatively impacted on both the supply and demand sides. Supply of natural gas is surprisingly up in the United States due to the success of the non-conventional shale gas plays. On the demand side, the worldwide recession is significantly reducing industrial consumption of both natural gas and oil. However, even before the recession, many countries had fallen back from their peak oil demand levels.

> "In Canada...revenue increased by 13% to $107.8 million while our segment profit came in at $45.2 million, an increase of 12% from 2007."

While the current surplus of oil and natural gas looks troubling for the industry, this is an industry where the supply and demand equation works

very swiftly. According to a recent research report put out by Simmons & Company, U.S. natural gas production would decline by 33% per year in a complete absence of drilling. They also believe that as many as 1,000 gas-directed rigs would have to shut down this year for U.S. gas storage not to increase in 2009. However, having balanced supply and demand for 2009, this would create the scenario of gas supply shortage issues for 2010. The scenario they see as more likely would be a reduction of 700 gas-directed rigs in 2009 leading to a slight increase in gas storage for the year but a balancing or gas price positive market in 2010. This is consistent with our industry adage, "the faster it goes down the faster it comes back."

> "While the current surplus of oil and natural gas looks troubling for the industry, this is an industry where the supply and demand equation works very swiftly."

While in the short term we are powerless to stop the revenue declines, especially in the U.S. where our rig count has halved, we hope to respond by not blindly cutting costs and infrastructure. Certainly we expect that some employee reduction and prudent cost management will reduce our expenses but we, as always, would prefer to be more aggressive on the revenue side. Although we have consistently invested heavily in R&D, the management of that growing group has become extremely complicated and we have not recently produced new products and feature enhancements as quickly as we would have liked. At the beginning of 2009, we added a new senior R&D manager, Dean Tremaine, to our management team. Dean has extensive technology management experience from his former employer, a major telecommunications company. We are very optimistic that Dean's complex process experience combined with Pason's empowerment culture will dramatically improve our R&D return going forward. For 2009, we are rolling out both our remote directional system and drilling optimization software. Both products offer the customer a way to drill more effectively at less cost and clearly should be of interest in the current market. In addition, we still believe we can gain back some market share by demonstrating superior service in the field.

Returning to our automatic driller provision stemming from the November 6, 2008 jury decision of Varco versus Pason, the jury found that we infringed three claims of a Varco patent and awarded damages of US$14.3 million based on 50% of our U.S. revenues from that product. We are currently challenging that verdict on the basis that the evidence heard at the trial was not sufficient to allow the jury to reach their resulting conclusion. This challenge will be ruled upon sometime in the first half of this year. While we cannot fully comment on our strategy in this patent lawsuit, we can say that not one customer has yet asked for our equipment to be replaced and most remain extremely supportive of our product which they see as superior and different. Should we ultimately lose our arguments, we still believe that with modifications, our equipment can continue to operate and retain most of its current functionality without infringing upon the Varco patent.

> "Pason is in an extremely strong financial position to weather an extended downturn. We exited the year with $150 million in working capital, of which $91 million was cash, and have continued to add to those numbers in the first quarter."

Pason is in an extremely strong financial position to weather an extended downturn. We exited the year with $150 million in working capital, of which $91 million was cash, and have continued to add to those numbers in the first quarter. While we operated well above break even in the first quarter of 2009, it is difficult to see industry activity in excess of our break even point for the balance of the year. However, should activity be even worse than currently projected, any cash shortfall can be easily carried by our cash reserves without impacting our dividend and possibly still leaving room for continuing share buybacks. Our strategy remains the same as in previous downturns. We want to minimize the reduction in our infrastructure so that we can instantly respond when the market turns positive again, aggravating losses in the short term but yielding the best return on equity in the long term.

On behalf of the Board of Directors,

Jim Hill
President & Chief Executive Officer
February 27, 2009

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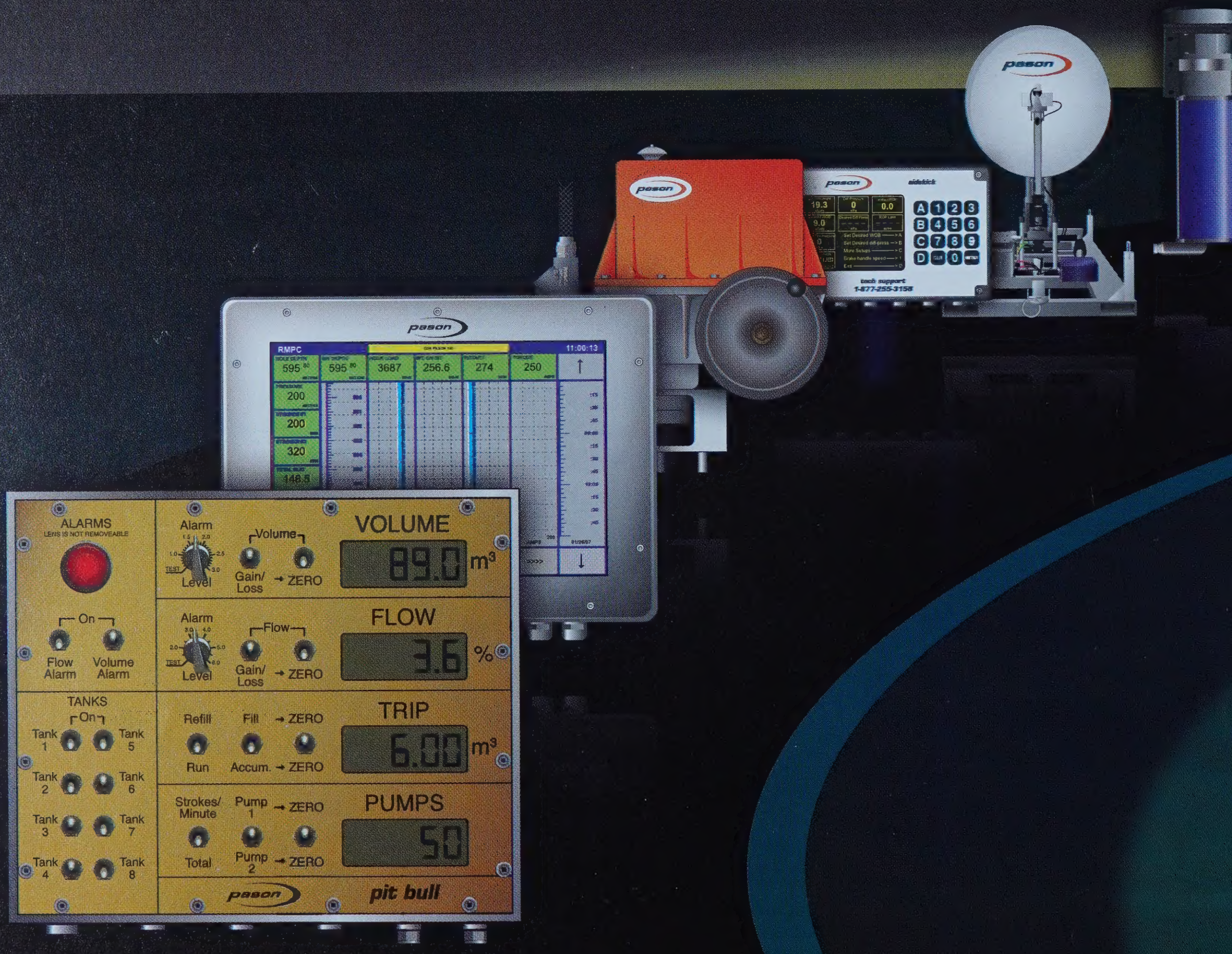
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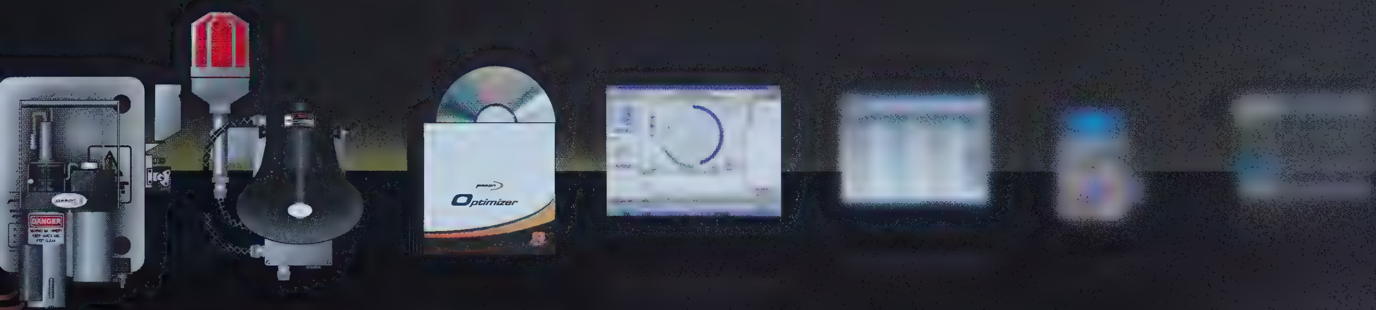

New developments
are on the horizon

Management's Discussion & Analysis

Consolidated Financial Statements 2008

defined.

The following discussion and analysis has been prepared by management as of February 24, 2009 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three months and years ended December 31, 2008 and 2007 and should be read in conjunction with the consolidated financial statements and accompanying notes.

The interim unaudited consolidated financial information for the three months ended December 31, 2008 and 2007 has not been reviewed by the Company's auditors.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

All financial measures presented in this annual report are expressed in Canadian dollars unless otherwise indicated.

	Three Months Ended December 31, 2008	2007	Change	Years Ended December 31, 2008	2007	Change
(000s, except per share data) (unaudited)	($)	($)	(%)	($)	($)	(%)
Revenue						
Drilling recorder rentals	**38,288**	26,239	46	**130,645**	102,955	27
Pit volume totalizer rentals	**16,093**	11,927	35	**56,385**	46,660	21
Communications rentals	**6,952**	5,683	22	**25,890**	22,729	14
Automatic driller rentals	**7,157**	5,157	39	**24,424**	19,368	26
Geological services	**4,482**	3,227	39	**15,068**	13,425	12
Total gas rentals	**4,976**	3,706	34	**17,174**	14,171	21
Choke control rentals	**1,265**	931	36	**4,171**	3,425	22
Service recorder rentals	**555**	436	27	**2,616**	2,014	30
Hazardous gas alarm rentals	**742**	199	273	**2,193**	417	426
Mobilization income	**2,418**	1,818	33	**8,546**	7,609	12
Other income	**1,206**	772	56	**4,012**	2,196	83
Interest income	**483**	453	7	**1,404**	1,470	(4)
Total revenue	**84,617**	60,548	40	**292,528**	236,439	24
Expenses						
Rental services	**28,653**	18,258	57	**96,948**	73,862	31
Geological services	**2,602**	2,370	10	**9,652**	9,196	5
Manufacturing and distribution	**180**	878	(79)	**2,683**	2,636	2
Research and development	**3,522**	3,074	15	**12,888**	9,566	35
Corporate services	**1,993**	1,863	7	**5,977**	5,729	4
Local administration	**1,946**	2,086	(7)	**7,273**	6,979	4
Stock-based compensation	**3,549**	1,267	180	**7,525**	5,248	43
Interest	**20**	27	(26)	**209**	143	46
Depreciation and amortization	**16,339**	7,466	119	**55,719**	42,797	30
Total expenses	**58,804**	37,289	58	**198,874**	156,156	27
Other Expenses (income)	**13,306**	(160)	--	**12,224**	383	--
Earnings (after taxes)	**12,639**	15,503	(18)	**61,321**	55,052	11
Per share – basic	**0.15**	0.19	(21)	**0.75**	0.69	9
Funds flow from Operations(1)	**31,287**	26,462	18	**124,726**	103,766	20
Per share – basic	**0.38**	0.33	15	**1.53**	1.30	18
Margins						
Rental services	**64%**	68%	(6)	**65%**	67%	(3)
Geological services	**42%**	27%	56	**36%**	32%	13

(1) Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense, future income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Selected Annual Information

Years Ended December 31,	2008	2007	2006
(000s, except per share data) (unaudited)	($)	($)	($)
Revenue	**292,528**	236,439	240,584
EBITDA (1)	**144,883**	128,088	143,238
As a % of revenue	**49.5**	54.2	59.5
Per share – basic	**1.78**	1.61	1.84
Per share – diluted	**1.77**	1.59	1.79
Funds flow from operations (1)	**124,726**	103,766	107,451
Per share – basic	**1.53**	1.30	1.38
Per share – diluted	**1.52**	1.29	1.34
Earnings	**61,321**	55,052	64,531
Per share – basic	**0.75**	0.69	0.83
Per share – diluted	**0.75**	0.68	0.81
Capital expenditures	**56,292**	76,615	71,233
Working capital	**152,337**	77,806	58,495
Total assets	**427,016**	302,593	270,860
Shareholders' equity	**354,589**	270,717	231,209
Average shares outstanding (#)			
Basic	**81,426**	79,586	77,899
Diluted	**81,936**	80,630	80,087
Shares outstanding end of year (#)	**81,456**	80,346	78,738

(1) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense, future income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Pason's revenue is derived from the rental of instrumentation and data services to oil and gas companies and rig contractors throughout Canada, the United States and internationally. For the fiscal year ended December 31, 2008, the Company improved its financial and operating results in Canada and the United States.

Revenue

Revenue from instrumentation rentals and geological services increased 40% to $84.1 million during the fourth quarter of 2008 compared to $60.1 million in 2007. For the year ended December 31, 2008, instrumentation rentals and geological services revenue increased 24% to $291.1 million from $235.0 million recorded in the same period a year ago. This was primarily due to increases of 11% and 8% in Canadian and United States industry drilling days, respectfully. Revenue per industry day improved 23% in the United States and 1% in Canada. The U.S. improvement is a result of a higher market share of active rigs during 2008 carrying at least one Pason product and increasing the number of products on each rig with a Pason presence.

Revenue by Product as a Percentage of Total Revenue

Years Ended December 31,	2008	2007
	(%)	(%)
Drilling recorder rentals	**45**	44
Pit volume totalizer rentals	**19**	20
Communications rentals	**9**	10
Automatic driller rentals	**8**	8
Total gas rentals	**6**	6
Geological services	**5**	6
Mobilization income	**3**	3
Service recorder rentals	**1**	1
Hazardous gas alarm rentals	**1**	--
Choke control rentals	**1**	1
All other income	**2**	1

Instrumentation Rentals

Pason's rental products include an integrated package that offers wellsite data acquisition and drilling management benefits at both the wellsite and in the office. During the fourth quarter of 2008, revenue generated by instrumentation rentals increased 40% to $79.7 million compared to $56.9 million a year ago. For the year ended December 31, 2008, revenue generated by instrumentation rentals totaled $276.1 million versus $221.5 million in 2007. United States rental revenue increased 34% to $159.1 million from $119.0 million, rental revenue generated from Canadian operations increased 13% to $107.1 million from $94.9 million, while revenue from international activities improved 29% to $9.9 million from $7.6 million in 2007. The gross margin (rental revenue less rental expenses) as a percentage of revenue was 64% in the fourth quarter of 2008 versus 68% in 2007 and 65% for the year ended 2008 versus 67% in 2007.

In Canada, the Company's rental revenue per industry drilling day was $785 in the fourth quarter versus $788 in 2007 and $781 per day for the year, up 1% from $770 a year ago. In the United States, rental revenue per industry drilling day increased 54% to $291 in the 2008 fourth quarter compared to $189 in the 2007 three-month period or 24% when measured in U.S. currency. For the year, U.S. rental revenue per industry day increased 23% to $242 per day versus $196 in 2007.

Electronic Drilling Recorder

Pason's primary product is the Company's Electronic Drilling Recorder (EDR) which is a complete system of instrumentation and monitoring equipment that acts as a base for all data capture, data display and communications at the drilling wellsite. At the end of 2008, Pason's EDR system was installed on 92% of all Canadian rigs reporting to the Canadian Association of Oilwell Drilling Contractors and 53% of all active U.S. land rigs.

Revenue generated from the Company's EDR rentals increased 46% to $38.3 million for the fourth quarter of 2008 compared to $26.2 million for the same period in 2007. For the year ended December 31, 2008, EDR revenue was up 27% to $130.6 million from $103.0 million recorded a year ago. This growth was due to increased U.S. and Canadian rental days. During 2008, Pason's U.S. EDR annual rental days increased 24% from 293,500 to 364,800 days. This was further aided by Pason's annual EDR rental days in Canada increasing 4% from 125,900 in 2007 to 131,300 in 2008. Pason rental days for all products are determined by the accumulated billing days from customer invoices. During 2008, the Company continued to enhance its software to allow its EDRs to take advantage of the broadband Internet access that Pason has made economically viable and available at most wellsites.

Pit Volume Totalizer

The Pit Volume Totalizer (PVT) is Pason's proprietary solution for the detection and early warning of "kicks" that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. During 2008, the Company's PVT was installed on 98% of Canadian and 67% of U.S. rigs operating with a Pason EDR system. Fourth quarter PVT revenue increased 35% to $16.1 million from $11.9 million in 2007. Increases of 28% and 8% in annual U.S. and Canadian rental days, respectively, contributed to the overall 21% increase in PVT rental revenue to $56.4 million from $46.7 million a year ago. The Company's U.S. PVT annual rental days were 245,800, up from 192,600 days in 2007, while Canadian rental days were 128,700 versus 118,800 days a year ago.

Communications

Pason's communications rental revenue is primarily derived from the Company's high bandwidth automatic aiming satellite system. The Pason system is the most robust in the industry and, combined with the Company's commitment to field service, has resulted in most operator or contractor customers seeing Pason as the primary provider of high-speed wellsite communications for email and web application management tools. Pason displays all data in standard forms on its Internet DataHub, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data amongst oilfield service companies, drilling contractors and operators).

In the fourth quarter of 2008, communications revenue increased 22% to $7.0 million compared to $5.7 million for the same period in 2007. For the year ended December 31, 2008, communications rental revenue increased 14% to $25.9 million from $22.7 million a year ago. During 2008, $15.8 million or 61% of the total communications revenue was from Canada and $10.1 million was from the United States.

Total Gas System

The Pason Total Gas System (TGAS) measures the total hydrocarbon gases (C1 through C5) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. This complex system provides a more accurate gas sample than competitor systems while reducing daily maintenance requirements. Fourth quarter 2008 TGAS revenue increased 34% to $5.0 million from $3.7 million in 2007. For the year ended December 31, 2008, TGAS revenue increased 21% to $17.2 million versus $14.2 million in 2007. During 2008, Pason's TGAS was installed on 36% of Canadian and 17% of U.S. land rigs operating with a Pason EDR system.

Automatic Driller

Pason's automatic driller is used to maintain constant weight on the drill bit while a well is being drilled. Revenue from this product increased 39% in the fourth quarter of 2008 to $7.2 million from $5.2 million in 2007 and was up 26% for the year to $24.4 million from $19.4 million in 2007. Canada and the United States generated $11.9 million and $11.2 million, respectively, in automatic driller revenue while International operations made up the balance. During 2008, Pason's automatic driller was installed on 73% of Canadian and 29% of U.S. land rigs operating with a Pason EDR system.

Choke Control System

Pason's Electronic Choke Control System is used to control and remove detected gas "kicks" from the wellbore. During the fourth quarter of 2008, revenue from this product increased 36% to $1.3 million from $0.9 million a year ago and increased 22% at year-end to $4.2 million from $3.4 million in 2007. As at December 31, 2008, the Pason Electronic Choke Control System had been installed on approximately 26% of all Canadian rigs in operation. The Company's business model for this product sees Pason providing only the electronic actuation and display, while the drilling contractor is responsible for the choke valve portion of the system. Of the $0.8 million 2008 increase, $0.4 million was incurred in Canada, $0.3 million in the U.S. and the remainder in International operations.

Electronic Service Recorder

Pason offers an electronic service recorder (ESR) that provides operational monitoring and administrative benefits on service rigs similar to the EDR on drilling rigs. Service rig operations present a challenging sensoring environment, more rig control points and an operating environment that is harsher than that of drilling rigs. Fourth quarter 2008 ESR revenue increased 27% to $0.6 million versus $0.5 million in 2007. For the year ended December 31, 2008, ESR revenue increased 30% to $2.6 million compared to $2.0 million in 2007 despite a 4% decrease in overall Canadian service rig days to 204,400 from 212,800 in 2007.

Hazardous Gas Alarm

Pason's hazardous gas alarm monitors both explosive gases (LEL) and H_2S where both readings and an alarm system are integrated with the EDR. Revenue from this product increased to $0.7 million in the fourth quarter of 2008 from $0.2 million in 2007. Revenue for the full year increased 426% to $2.2 million from $0.4 million in 2007. During 2008, 58% or $1.3 million of revenue was generated in Canada and $0.9 million in the United States.

Geological Services

In the United States, Pason provides a spectrum of geological services to analyze drilling cuttings, interpret lithology, and provide comprehensive reports with respect to target zones. Geological services range from remote unmanned well monitoring to extensive on and off location well site consulting and geo-steering through narrow pay zones of less than a meter. Pason Geological Services has a strong relationship with rig personnel and users specialized instrumentation employed at the well site.

Fourth quarter revenue from geological services increased 39% to $4.5 million from $3.2 million in 2007. For the year ended December 31, 2008 geological services revenue was up 12% to $15.1 million versus $13.4 million recorded a year ago. Pason's manned geological services continue to be concentrated in the U.S. Rocky Mountain region where more complicated drilling structures increase the need for these specialized services.

Expenses

Total expenses increased 58% to $58.8 million in the fourth quarter from $37.3 million for the same period in 2007. For the year ended December 31, 2008, total expenses increased 27% to $198.9 million from $156.2 million the prior year. The Company built its infrastructure of field technicians in the United States during 2008 and increased its investment in research and development of new products.

Individual Expense Items as a Percentage of Total Expenses

Years Ended December 31,	2008	2007
	(%)	(%)
Rental services	49	47
Depreciation and amortization	28	27
Research and development	6	6
Geological services	5	6
Local administration	4	5
Stock-based compensation	4	3
Corporate services	3	4
Manufacturing and distribution	1	2

Rental services expenses for the fourth quarter, which represented 49% of the period's total expenses, increased 57% to $28.7 million from $18.3 million a year ago. Of the $10.4 million increase in the fourth quarter rental services, $1.9 million was incurred in Canada ($0.9 million for product repairs, $0.5 million for legal expenses and $0.5 million for various other expenses) and $6.3 million in the United States ($1.2 million for product repairs, $3.9 million for labour and related costs, $0.9 million in legal fees and $0.3 million across various categories). The remaining $2.2 million increase relates to foreign exchange due to the weakened Canadian dollar relative to the US$ in the fourth quarter of 2008 versus 2007. During 2008, rental services expense, which represented 49% of the year's total expenses, increased 31% to $96.9 million compared to $73.9 million in 2007. These expenses consisted primarily of wages and related benefit costs representing approximately 26% and 34% of the total rental services expenses in both Canada and the United States, respectively, and the additional direct costs of field technicians, including but not limited to vehicle costs, communication, equipment repairs and freight. Of the $23.0 million year-over-year increase in total rental services expense, $16.5 million was incurred in the United States ($5.7 million for equipment repairs, $3.4 million for labour and related costs, $2.8 million for field expenses, $2.2 million for vehicle costs, $1.3 million for legal fees (relating to the automatic driller patent infringement lawsuit) and $1.1 million for communications) and Canada increased $3.8 million (primarily related to equipment repairs of $3.2 million and various other items). The remaining $2.7 million increase was incurred throughout the international operations including product repairs and freight and customs charges in order to build and maintain the international equipment fleet. Pason's field service technicians are employed year round, and as a result, the Company's related expenses have a heavily weighted fixed component that is critical to its high service level. At December 31, 2008, Pason employed 236 field service technicians versus 206 at December 31, 2007.

Geological services expenses increased 10% to $2.6 million in the fourth quarter of 2008 from $2.4 million in 2007 and rose 5% to $9.7 million from $9.2 million for the full year. The $0.5 million year-over-year increase was for labour and related costs.

Costs related to the manufacturing and distribution of Pason products decreased 79% to $0.2 million in the 2008 fourth quarter from $0.9 million in 2007. For the year, these expenses increased 2% to $2.7 million from $2.6 million a year ago. These costs primarily include periodic inventory write downs.

Research and development ("R&D") expenses are primarily labour and overhead related. The Company is focusing on developing new product offerings for our customers. These costs increased 15% to $3.5 million in the fourth quarter of 2008 versus $3.1 million in 2007. For the year ended December 31, 2008, R&D expenses increased 35% to $12.9 million from $9.6 million a year ago, while gross annual deferred development costs increased $3.2 million to $5.1 million from $1.9 million in 2007. The 2008 deferred development costs were reduced by netting $1.1 million (2007 - $1.4 million) in investment tax credits received during the year. At December 31, 2008, there were 115 employees devoted to research and development versus 76 at December 31, 2007. Included in this number at the end of 2008 were 34 full time contractors provided by a third party Canadian software house.

Corporate services expenses increased 7% to $2.0 million in the 2008 fourth quarter from $1.9 million in 2007. For the year ended December 31, 2008, corporate services were $6.0 million, up from $5.7 million in 2007. The increase was due to labour and related overhead costs.

Local administration costs decreased 7% to $1.9 million for the fourth quarter compared to $2.1 million recorded in 2007. For the year ended December 31, 2008, these expenses increased 4% to $7.3 million from $7.0 million a year ago due to labour and related costs. Local administration costs represented 2% of total revenue in 2008 and 3% in 2007.

Total 2008 stock based compensation expenses of $7.5 million consisted of $7.0 million of stock option and $0.5 million of restricted share unit (RSU) expenses. This compares to $5.2 million and $nil, respectively, in 2007. All stock options issued prior to November 2008 have been accounted for using the fair value method using the Black-Scholes option pricing model. The corresponding accounting entry created the contributed surplus as shown under shareholders' equity on the Company's balance sheet. As options are exercised for shares, share capital and contributed surplus are adjusted accordingly. All options issued as of November 2008 and thereafter are accounted for using the intrinsic value method. The corresponding liability for all outstanding stock options as of December 31, 2008 was calculated to be $3.7 million (2007-$nil) and is recorded and allocated between current and long-term portions on the year end balance sheet. The accounting offset for this liability was charged to contributed surplus for $2.2 million and the remaining $1.5 million was charged to stock-based compensation expense. A further $1.5 million (2007 - $nil) representing stock options that the Company settled directly for cash during 2008 also reduced contributed surplus as of December 31, 2008 by $1.0 million and the remainder was charged to stock-based compensation expense.

Depreciation and amortization expenses increased 119% to $16.3 million in the 2008 fourth quarter from $7.5 million recorded in 2007. This $8.8 million increase resulted from $2.9 million higher losses on disposal of assets in 2008, $1.4 million less in R&D investment tax credit benefit amortization, $3.4 million due to a retroactive reduction booked in the fourth quarter of 2007 and the remaining $1.1 million due to 2007 capital additions. For the year ended December 31, 2008, depreciation and amortization expenses rose 30% to $55.7 million from $42.8 million in 2007, which represented 28% of the year's total expenses in 2008 versus 27% in 2007. At December 31, 2008 these expenses included losses on the disposal of assets of $5.3 million versus $2.4 million in 2007. R&D amortization expense of $0.5 million (2007-$0.6 million) was also reduced by $0.8 million (2007-$2.2 million) due to prior years' investment tax credits amortized during the year.

Other expenses were $13.3 million in the fourth quarter of 2008 versus other income of $0.2 million in the 2007 fourth quarter. For the year ended December 31, 2008, other expenses were $12.2 million versus $0.4 million in 2007. The $11.8 million increase was due to a $16.9 million patent infringement lawsuit provision booked in the fourth quarter of 2008. The patent infringement ruling against the Company is more fully explained in Note 18 of the December 31, 2008 Consolidated Financial Statements. This was partially offset by an increase in foreign exchange gains of $4.1 million resulting from the repayment of inter-company balances from the Company's U.S. subsidiary and a $1.0 million gain on the sale of an investment.

Income tax expenses resulted in a $0.1 million credit for the 2008 fourth quarter compared to $7.9 million a year ago and decreased 19% to $20.1 million for the year ended December 31, 2008 from $24.8 million in 2007. The 2008 decrease in income taxes was due to realizing the benefit of US$ 10.2 million in available non-capital losses during the fourth quarter of the year. The Company's combined current and future effective tax rate for 2008 was 24.7% versus 31.1% a year ago.

Margins

The margin generated by the Company's rental products decreased to 64% in the fourth quarter of 2008 from 68% in 2007. For the year ended December 31, 2008, rental product margin was 65% versus 67% in 2007. The decrease in margins in 2008 resulted primarily from increased product repair costs necessary to maintain the Company's rental equipment fleet. Geological services margin increased to 42% for the fourth quarter of 2008 from 27% in 2007 and improved to 36% for the year from 32% in 2007 due to better deployment of the workforce and emphasizing accountability for expenses.

Earnings

Fourth quarter 2008 earnings decreased 18% to $12.6 million or $0.15 per share basic from $15.5 million or $0.19 per share in the 2007 three-month period. Earnings for the year increased to $61.3 million or $0.75 per share basic from $55.1 million or $0.69 per share basic in 2007. This 11% earnings improvement was due to increased drilling activity in both Canada and the United States and a strong increase in U.S. revenue per industry drilling day which was all offset by a US$ 14.3 million accrual for a patent infringement ruling against the Company.

Funds Flow from Operations(1)

Operating funds flow increased 18% to $31.3 million or $0.38 per share basic in the fourth quarter of 2008 from $26.5 million or $0.33 per share basic in 2007. For the year ended December 31, 2008, funds flow from operations increased to $124.7 million or $1.53 per share basic from $103.8 million or $1.30 per share basic a year ago. The 20% or $20.9 million funds flow increase was a result of increases of $6.3 million in earnings, $12.9 million in depreciation and amortization, $1.5 million in stock-based compensation expense and $1.8 million in unrealized foreign exchange losses all offset by $1.0 million from a gain on sale of investment and a decrease in future incomes taxes of $0.6 million. During 2008, funds flow was used primarily to finance the Company's capital expenditure program, pay common share dividends and purchase common shares for cancellation.

(1) Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense, future income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies. Funds flow from operations including per share amounts are presented to assist readers in assessing non-discretionary cash flows generated and available for capital expenditures.

Liquidity and Capital Resources

At December 31, 2008, the Company's working capital position was $152.3 million versus $77.8 million a year ago. Due to the rental nature of Pason's business, inventory is treated as a capital asset, and as a result, does not affect the Company's working capital.

Proceeds from the exercise of Company stock options totaled $17.4 million compared to $11.4 million in 2007, resulting in the issuance of 1.98 million common shares versus 1.61 million common shares the prior year. The average price on options exercised increased 21% to $8.58 per share from $7.07 per share in 2007.

In 2008, the Company purchased and cancelled 0.87 million common shares under its normal course issuer bid at an average price of $12.55 per share representing a total cash outlay of $10.9 million.

During 2008 the Company purchased 0.31 million stock options for a total cash consideration of $1.5 million.

During 2008, funds flow funded the Company's $56.3 million capital expenditure program, representing a 27% decrease from the prior year's total expenditure amount of $76.6 million. Funds were used to acquire and build $52.3 million of new capital assets and product enhancements with a further $4.0 million spent on deferred development costs (net of investment tax credits received of $1.1 million) versus $76.1 million and $0.5 million (net of investment tax credits received of $1.4 million) respectively, in 2007. Geographically, $5.7 million of the new capital assets were added to Canada, $44.5 million to the U.S. and $6.0 million internationally. This compares to $31.9 million, $39.3 million and $5.4 million, respectively, a year ago.

At December 31, 2008, the Company had no capital lease obligations.

During 2008, the Company renewed its 364-day committed revolving credit facility and reduced the amount available to $5.0 million. At December 31, 2008, an amount of $nil (2007 - $11.8 million) had been drawn on the facility. The Company's U.S. subsidiary cancelled its US$1.5 million revolving line of credit during the year since it was not utilizing the facility.

During 2008, Pason continued to declare and pay semi-annual common share dividends. In the second quarter of 2008, the Company declared and paid a dividend of $8.2 million or $0.10 per share. In the fourth quarter of 2008, the Company declared a dividend of $9.8 million or $0.12 per share, payable on January 2, 2009. Total 2008 dividends declared were $18.0 million or $0.22 per share compared to $12.8 million or $0.16 per share declared in 2007.

Disclosure of Outstanding Share Data

At February 24, 2009, there were 81.46 million common shares and 6.59 million options issued and outstanding.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
($)	(000s)	(Years)	($)	(000s)	($)
7.38 – 11.79	137	0.49	7.83	137	7.83
11.80 – 12.00	2,524	4.76	11.80	--	11.80
12.01 – 13.00	1,965	2.34	12.18	643	12.18
13.01 – 17.75	1,968	0.79	15.27	1,441	15.23
	6,594	2.76	12.87	2,221	13.89

Contractual Obligations

(000s)	Total ($)	Less than 1 Year ($)	1-3 Years ($)	Thereafter ($)
Operating leases	19,013	6,079	7,880	5,054

Contractual obligations relate to minimum future lease payments required primarily for operating leases for certain facilities and vehicles.

New Products

For competitive and disclosure accuracy reasons, it is the Company's policy not to divulge details of a new product until it is in an advanced prototype stage since its commercial viability is often not determined until that time. Products discussed below are at a stage of development where they have been demonstrated as providing potential value to our customers but their ultimate market potential is still uncertain.

Pason Remote Directional System

The directional drilling market in Canada is under continuing pressure from operators to reduce costs significantly. As the cost of retaining experienced workers at the wellsite (including providing for their accommodation and security) increases dramatically, Pason's model of remote management continues to attract substantial interest. Pason has been working with various directional drilling companies to come up with a software solution that will decode data from down hole tools and provide visual feedback to the rig crew. The Company expects to have a marketable solution available in 2009.

Pason Optimizer

Pason's drilling optimization software will ultimately aid customers in extracting greater value from their drilling data. The software has proved its value in early testing, reducing the effort required to optimize a well plan and reducing the drilling days when using the plan generated by the software. The Company expects this product to gain traction in the market in 2009.

International Markets

Pason's international business model for renting its equipment continues to evolve in countries where drilling rig instrumentation has historically been purchased. Pason retains ownership of its equipment while protecting itself from overhead and unexpected costs associated with local service companies. Pason continues to expand its South American operations through its local partner and consolidated its Mexican operations late in 2008 to now operate as a Latin American business unit. From the Company's Latin American base in Bogota, Colombia, Pason operates in Mexico and all South American oil producing countries except Venezuela. Latin American revenue increased 24% to $9.0 million during 2008 due to higher revenue generating installations in Brazil, Peru, Ecuador and Colombia as well as an overall $0.3 million increase in electronic service recorder rentals. At December 31, 2008, Pason EDRs were installed on 91 rigs in South America versus 85 at the end of 2007. Automatic Drillers were installed on 43 rigs compared to 49 rigs a year ago. The automatic driller decline occurred at the tail end of 2008 as Argentina's rig count fell sharply.

At the end of 2008, the Company provided instrumentation packages for 42 rigs in Mexico compared to 20 rigs in 2007. The year-over-year increase was due to an expansion in integrated services contracts from the national oil company, Pemex. Operations in Australia advanced during the year with 20 rigs installed by year-end compared to 8 rigs in 2007, each carrying an EDR, PVT and TGAS system.

During 2008, international operations contributed $9.9 million to the Company's total rental revenue, an increase of 29% over the $7.6 million contributed in 2007. International operations contributed $4.8 million of segment profit in both 2008 and 2007. The reduction in 2008 margin was primarily due to higher freight and duty charges to get rental assets to the local market.

Accounting Changes

Beginning in 2008, the Company adopted the new Section 1535 "Capital Disclosures" standard and Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" standards issued by the Canadian Institute of Chartered Accountants ("CICA"). None of these changes had a significant effect on the Company's 2008 financial results. Details of these new accounting standards are included in Notes 3, 10 and 13 in the December 31, 2008 Consolidated Financial Statements.

On October 23, 2008, the shareholders of the Company voted in favor of the cancellation of the existing stock option plan and to replace it with a revised stock option plan. The new plan adoption resulted in an accounting policy change from the previous fair value method using the Black-Scholes option pricing model to a combination of the fair value and intrinsic value methods. This latter method requires that the outstanding stock option liability be marked to market each quarter. This could have a volatile and significant impact on future earnings. The Company has fully implemented this change on a prospective basis in the fourth quarter of 2008. Details of this accounting change are included in Notes 3, 4 and 9 in the December 31, 2008 Consolidated Financial Statements.

Future Accounting Changes

Research and Development Costs

The CICA issued Section 3064 "Goodwill and Intangible Assets" replacing Section 3450, "Research and Development Costs." The new standard, which the Company will adopt January 1, 2009, establishes guidelines for the recognition, measurement, presentation and disclosure of research and development costs. Management is in the process of assessing the impact of this new standard and believes it will not have a material impact on the Company's consolidated financial statements.

Consolidation

The CICA issued Section 1601 "Consolidated financial statements." This new section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the Consolidated Financial Statements.

Convergence with International Financial Reporting Standards

Canada's Accounting Standards Board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. The Company has prepared an initial plan and gap analysis which highlights areas where its current Canadian accounting practices differ from IFRS. The full impact on the Company's consolidated financial statements has not yet been determined.

Accounting Presentation Change

Beginning in 2008, the Company created a new organizational unit called "Corporate Services." This group acts to support the various country business units and includes primarily personnel related costs that are incurred at the Company's head office in Calgary. The group includes the activities of product quality assurance, an around the clock helpdesk, purchasing, contract manufacturing representatives, third party logistics, warehouse occupancy costs, risk management, corporate human resources, corporate finance and the salaries as well as related costs of the Company's President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Treasurer. With the recent transformation of the Company's manufacturing process to external contract manufacturing, manufacturing costs will no longer be incurred directly by Pason after 2008. The remaining warehouse and logistics costs at the Company's Calgary and Golden facilities will now form part of each country's respective rental services expenses. Administration costs remain relatively unchanged with the exception of the finance and executive salaries described above now included in corporate services. Going forward, Administration will be described as "local administration" as it includes operational finance, human resources and office administration functions at each of the Company's country business units.

This is a change in presentation only and has no impact on the Company's EBITDA or net earnings. However, management believes that this will provide more meaningful comparison among the three business units in the Company's segmented reporting information. For comparative reporting purposes, the 2007 numbers have been reclassified accordingly.

Changes to Long-Term Incentive Compensation Plans

During 2008, the Company revised its long-term incentive compensation strategy. This included obtaining the approval of the Company's shareholders to revise the stock option plan. The most significant plan revision will now make it more attractive for plan participants to approach the Company to purchase outstanding stock options for cash. Management believes this will be an effective use of cash and is expected to slow the new issuance of common shares from treasury which has had a dilutive impact on the Company's stock since the original plan's adoption. During 2008, the Company purchased 0.31 million options for a total cash consideration of $1.5 million. The Board of Directors also approved that the life of stock options issued subsequent to October 2008 will be for five years instead of three and one-half years, which was the Company's previous practice.

During 2008, the Company introduced a restricted share unit ("RSU") plan for employees and directors whereby RSU holders will receive a cash settlement based upon the number of outstanding RSUs multiplied by the prevailing market price of the Company's common shares on the RSU vesting date. Similar to the Company's stock options, RSUs will vest over three years.

Management believes that these changes to the Company's long-term incentive compensation plans will further enable Pason to attract and retain key employees at all levels and act to further align the interests of all employees with those of the Company and its shareholders.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

Depreciation and Amortization

The accounting estimates that have the greatest impact on the Company's financial statements are depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

Carrying Value of Capital Assets

Long-lived assets are to be tested for impairment at least annually. An impairment loss is required to be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Management reviewed the current year and forecast 2009 earnings before interest, taxes, depreciation and amortization for the various assets and determined there were no indications, events or changes in circumstances that would indicate that the carrying amounts may not be recoverable.

Risks and Uncertainties

The major area of uncertainty for Pason is that the demand for its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of Pason and its customers. Reduced cashflow in the energy industry will lead to downward pricing pressure which will ultimately impact Pason's business.

Weakness in commodity prices can also impact the ability of the Company's customers to pay for the services provided. However, as Pason has a very broad customer base and its services are a minor component when looking at the overall cost of drilling a well, the risk is minimal.

Once the associated costs for the implementation of any current or proposed energy reduction programs are determined, customers' cash flows and capital expenditure programs may be affected.

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for the Company's services, as customers tend to focus on reorganization activities prior to committing funds to major drilling programs.

In addition to the cyclical nature of its business, Pason is also subject to risks and uncertainties associated with weather and seasonality. Pason continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and internationally where these factors are less likely to influence activity.

Pason faces the challenge of attracting and retaining employees to meet its various specialized needs. The Company attempts to overcome this by offering a different, more empowered working culture, an attractive compensation package and training as required to enhance skills.

The Company does not employ hazardous materials, so the possibility of environmental liabilities is limited.

Pason carries adequate levels of insurance to protect the Company. Due to the wide geographical distribution of equipment, the possibility of a loss to a significant portion of its asset base is extremely unlikely. As the Company's equipment is largely unmanned, the customer assumes responsibility for its operations.

Outlook

Pason has strong cash and working capital and no debt on its balance sheet. Despite the current economic recession, the Company is well positioned to weather an extended downturn. The average number of U.S. active land drilling rigs was 1,879 in 2008, up from 1,768 in 2007 resulting in 655,700 drilling days in 2008 versus 607,000 in 2007. This tally dropped off significantly in the latter part of 2008 as the worldwide economic downturn took hold. In Canada, 16,806 wells were completed with approximately 134,800 drilling days compared to 19,100 wells and 121,000 drilling days in 2007. What this means for the North American drilling market in 2009 is particularly difficult to predict. The full impact of a worldwide recession has only recently begun so any predictions will vary significantly. This slowdown in the energy industry presents an opportunity for Pason to invest in internal system improvements and continue with new product development in R&D. Pason anticipates spending $13.0 million during 2009 to add new products and maintain existing products and enhancements in North America and internationally where significant room for additional market share exists. The Company will continue to pursue international opportunities that fall within its service model parameters.

Pason's strengths in hardware design, software development, data communications, storage infrastructure and service support allow it to continue to outperform the general industry, and as a result, continue to offer superior shareholder value.

During 2008, the Company developed and implemented its own electronic billings system and continued employing a third party logistics warehouse to help with inventory management. Pason will repatriate this inventory logistics function in 2009 in order to improve cost control and efficiency. There remain many challenges and opportunities to continuously improve processes so that strong margins can be maintained after the current recession ends. Pason continues to work on major system improvements in operations management, capital asset tracking and warehouse logistics.

Operational Information

(unaudited)	Industry Drilling Days (#)	Pason Rental Revenue (U.S.$000s)	Pason Rental Revenue (CDN$000s)	Revenue Per Industry Drilling Day (U.S.$)	Revenue Per Industry Drilling Day (CDN$)
Canada (1)					
1999	81,800		15,000		183
2000	117,400		29,000		247
2001	120,400		35,900		298
2002	92,000		32,088		349
2003	126,500		56,393		446
2004	132,400		73,149		552
2005	158,300		104,850		662
2006	157,200		118,159		752
2007	121,000		93,167		770
2008	**134,800**	**N/A**	**105,227**	**N/A**	**781**
United States (2)					
1999	191,600	2,832	4,200	15	22
2000	281,400	5,048	7,500	18	27
2001	354,400	11,154	17,300	31	49
2002	253,700	10,365	16,276	41	64
2003	329,500	19,323	26,962	59	82
2004	390,700	29,966	39,004	77	100
2005	458,500	46,608	56,419	102	123
2006	557,800	87,866	99,649	158	179
2007	607,000	111,067	119,031	183	196
2008	**655,700**	**148,541**	**158,969**	**227**	**242**
Latin America (3)					
2003	59,100		2,150		36
2004	66,300		3,306		50
2005	71,700		4,175		58
2006	71,600		5,403		75
2007	81,700		7,223		88
2008	**87,500**	**N/A**	**8,966**	**N/A**	**102**

(1) Source: Canadian Association of Oilwell Drilling Contractors.

(2) Baker Hughes weekly active rig count.

(3) Baker Hughes weekly active rig count. Note that Pason specifically excludes Venezuela where it does not operate.

Years Ended December 31,	Canada 2008	Canada 2007	United States 2008	United States 2007
(unaudited)				
EDR rental days (#)	**131,300**	125,900	**364,800**	293,500
PVT rental days (#)	**128,700**	118,800	**245,800**	192,600
EDR revenue per rental day ($)	**308**	288	**235**	216
PVT revenue per rental day ($)	**169**	168	**134**	134

Numbers are impacted by the EDR configurations in each country and by the weaker Canadian dollar in 2008 versus 2007.

Summary of Quarterly Results

Three Months Ended	2007 Mar.31,	2007 Jun.30,	2007 Sep.30,	2007 Dec.31,	2008 Mar.31,	2008 Jun.30,	2008 Sep.30,	2008 Dec.31,
(000s, except per share data) (unaudited)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	70,320	44,597	60,974	60,548	**73,253**	**54,180**	**80,478**	**84,617**
EBITDA (1)	40,742	20,298	34,869	32,179	**43,274**	**23,496**	**45,698**	**32,415**
Per share – basic	0.52	0.26	0.44	0.40	**0.53**	**0.29**	**0.56**	**0.40**
Per share – diluted	0.51	0.25	0.43	0.40	**0.53**	**0.28**	**0.55**	**0.40**
Funds flow from Operations (1)	30,129	18,574	28,601	26,462	**34,907**	**20,867**	**37,665**	**31,287**
Per share – basic	0.38	0.23	0.36	0.33	**0.43**	**0.26**	**0.46**	**0.38**
Per share – diluted	0.38	0.23	0.35	0.33	**0.43**	**0.25**	**0.46**	**0.38**
Earnings	18,524	5,376	15,649	15,503	**20,866**	**6,459**	**21,357**	**12,639**
Per share – basic	0.23	0.07	0.20	0.19	**0.26**	**0.08**	**0.26**	**0.15**
Per share – diluted	0.23	0.07	0.19	0.19	**0.26**	**0.08**	**0.26**	**0.15**

(1) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense, future income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Q4 – 2008
Revenue increased 40% to $84.6 million, earnings decreased 18% to $12.6 million and earnings per diluted share decreased 21% to $0.15 versus the fourth quarter of 2007. Earnings were impacted by $16.9 million ($11.8 million net of income tax) due to a provision for an automatic driller litigation charge which also reduced earnings per diluted share by 48% or $0.14.

Q3 – 2008
Best ever quarter with revenue up 32% to $80.5 million, earnings up 36% to $21.4 million and earnings per diluted share up 37% to $0.26 versus 2007.

Q2 – 2008
Revenue increased 21% to $54.2 million, earnings increased 20% to $6.5 million and earnings per diluted share increased 14% to $0.08 versus the second quarter of 2007.

Q1 – 2008
Revenue increased 4% to $73.3 million, earnings increased 13% to $20.9 million and earnings per diluted share increased 13% to $0.26 versus 2007.

Q4 – 2007
Revenue increased 1% to $60.5 million, earnings increased 3% to $15.5 million and earnings per diluted share were the same as the fourth quarter of 2006 at $0.19.

Q3 – 2007
Revenue decreased 4% to $61.0 million, earnings declined 12% to $15.6 million and earnings per diluted share fell 14% to $0.19 versus 2006.

Q2 – 2007
Revenue decreased 7% to $44.6 million, earnings declined 54% to $5.4 million and earnings per diluted share fell 50% to $0.07 versus the second quarter of 2006.

Q1 – 2007
Revenue increased 4% to $70.3 million, earnings declined 8% to $18.5 million and earnings per diluted share fell 8% to $0.23 versus 2006.

Variations in Pason's quarterly financial results are due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of United States and international operations. The first quarter is generally the strongest quarter for the Company due to strong activity in northern areas when location access is best during the winter. The second quarter is always the slowest due to spring breakup in Canada when many areas are not accessible due to ground conditions, and therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas becomes available with ground freezing. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

Statement Regarding Internal Controls over Financial Reporting and Disclosure Controls

At December 31, 2008, the Company had carried out a review and evaluation of internal controls over financial reporting under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer.

Management's Responsibility for the Financial Statements and Report on Internal Control over Financial Reporting

The preparation and presentation of the Company's Consolidated Financial Statements and the overall reasonableness of the Company's financial reporting are the responsibility of management. The financial statements have been prepared in accordance with Canadian GAAP and necessarily include estimates, which are based on management's best judgments. Information contained elsewhere in the Annual Report and MD&A is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements. The company uses a control framework based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting during 2008. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's system of internal control over financial reporting did not contain any material weakness and was effective as at December 31, 2008.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility with the assistance of the Audit Committee of the Board of Directors.

Risk of Capital Equipment Location

Pason has rental assets operating on the majority of land-based drilling rigs in North America. To ensure timely deployment of equipment to meet customers' needs, the Company chooses to leave equipment installed on rigs in the field. These rigs are constantly moving as drilling programs evolve which makes it inherently difficult to locate all of Pason's rental assets in the field. Therefore, it is possible that the Company will not be able to track and locate 100% of all rental equipment all the time. However, due to the proprietary nature of the equipment, the risk of theft is low and management's assessment is that a potential write-off of rental equipment that cannot eventually be located is not expected to have a significant adverse impact on the Company's financial position or operations. These factors have also been considered in choosing and consistently applying the Company's depreciation policy.

The President and Chief Executive Officer and the Chief Financial Officer have also concluded that disclosure controls and procedures and controls over financial reporting were effective during 2008.

SEDAR

Additional information relating to the Company can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

MANAGEMENT'S REPORT

To the Shareholders of Pason Systems Inc.

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and has made significant accounting judgements and estimates as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis ("MD&A"). The MD&A is based on the Company's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2008 and 2007.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

JAMES D. HILL

J.D. Hill

President & Chief Executive Officer

JIM GLASSPOOLE

J.H. Glasspoole

Chief Financial Officer

Calgary, Alberta

February 24, 2009

AUDITORS' REPORT

To the Shareholders of Pason Systems Inc.

We have audited the consolidated balance sheets of Pason Systems Inc. as at December 31, 2008 and 2007 and the consolidated statements of earnings and retained earnings, comprehensive income, accumulated other comprehensive income (loss) and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Pason Systems Inc. as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Deloitte & Touche LLP

Calgary, Alberta

February 24, 2009

CONSOLIDATED BALANCE SHEETS

December 31,	2008	2007
(000s)	($)	($)
ASSETS		
Current		
Cash, net of bank indebtedness (Note 8)	**100,610**	23,159
Accounts receivable	**78,568**	73,454
Prepaid expenses	**2,023**	1,987
Income taxes recoverable	**12,539**	2,652
Future income tax assets (Note 12)	**9,153**	1,023
	202,893	102,275
Investments (Note 5)	**2,802**	3,000
Capital assets (Note 6)	**207,342**	192,620
Deferred development costs (Note 7)	**8,979**	4,698
Future income tax asset (Note 12)	**5,000**	--
	427,016	302,593
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 18)	**38,123**	17,647
Current portion of stock-based compensation liability (Note 9)	**2,656**	--
Dividends payable (Note 9)	**9,777**	6,822
	50,556	24,469
Stock-based compensation liability (Note 9)	**1,475**	--
Future income tax liabilities (Note 12)	**20,396**	7,407
	72,427	31,876
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	**71,517**	51,505
Contributed surplus (Note 9)	**8,834**	10,323
Accumulated other comprehensive income (loss)	**2,450**	(29,710)
Retained earnings	**271,788**	238,599
	354,589	270,717
	427,016	302,593

Commitments (Note 16)
Contingencies (Note 18)

Approved by the Board of Directors

HAROLD R. ALLSOPP
Director

JAMES B. HOWE
Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years Ended December 31,	2008	2007
(000s, except per share data)	($)	($)
Revenue		
Rental revenue	**276,056**	221,544
Geological services	**15,068**	13,425
Interest	**1,404**	1,470
	292,528	236,439
Expenses		
Rental services	**96,948**	73,862
Geological services	**9,652**	9,196
Manufacturing and distribution	**2,683**	2,636
Research and development	**12,888**	9,566
Corporate services	**5,977**	5,729
Local administration	**7,273**	6,979
Stock-based compensation (Note 9)	**7,525**	5,248
Interest	**209**	143
Depreciation and amortization (Notes 6 and 7)	**55,719**	42,797
	198,874	156,156
Earnings before the under noted items	**93,654**	80,283
Other expenses (income) (Note 11)	**12,224**	383
Earnings before income taxes	**81,430**	79,900
Income taxes (Note 12)		
Current	**20,082**	24,179
Future	**27**	669
	20,109	24,848
Earnings	**61,321**	55,052
Retained earnings, beginning of year	**238,599**	196,347
Dividends (Note 9)	**(17,964)**	(12,800)
Purchase of common shares (Note 9)	**(10,168)**	--
Retained earnings, end of year	**271,788**	238,599
Earnings per share (Note 14)		
Basic	**0.75**	0.69
Diluted	**0.75**	0.68

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31,	2008	2007
(000s)	($)	($)
Earnings	**61,321**	55,052
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	**32,160**	(19,357)
Total comprehensive income	**93,481**	35,695

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Years Ended December 31,	2008	2007
(000s)	($)	($)
Accumulated other comprehensive loss , beginning of year	**(29,710)**	(10,353)
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	**32,160**	(19,357)
Accumulated other comprehensive income (loss), end of year	**2,450**	(29,710)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2008	2007
(000s)	($)	($)
Cash flows related to the following activities:		
Operating		
Earnings	**61,321**	55,052
Adjustments for non-cash items:		
Depreciation and amortization	**55,719**	42,797
Stock-based compensation	**6,776**	5,248
Future income taxes	**27**	669
Gain on sale of investment	**(999)**	--
Unrealized foreign exchange loss	**1,882**	--
	124,726	103,766
Changes in non-cash working capital (Note 17)	**15,031**	(18,794)
Cash flow from operating activities	**139,757**	84,972
Financing (Note 9)		
Issue of common shares under the stock option plan	**17,356**	11,365
Purchase of common shares	**(10,908)**	--
Purchase of stock options	**(1,486)**	--
Payment of dividends	**(15,009)**	(11,881)
	(10,047)	(516)
Investing		
Additions to capital assets	**(52,315)**	(76,083)
Deferred development costs, net of investment tax credits received	**(3,977)**	(532)
Proceeds on disposal of capital assets	**292**	118
Purchase of investment	**(2,802)**	--
Proceeds on sale of investment	**4,003**	--
Changes in non-cash working capital (Note 17)	**(1,598)**	(2,974)
	(56,397)	(79,471)
Effect of exchange rate changes on cash	**4,138**	(3,683)
Net increase in cash and cash equivalents	**77,451**	1,302
Cash and cash equivalents, beginning of year	**23,159**	21,857
Cash and cash equivalents, end of year	**100,610**	23,159
Represented by:		
Cash	**90,833**	28,112
Cash held in trust (Note 9)	**9,777**	6,822
Bank indebtedness	**--**	(11,775)
Cash and cash equivalents	**100,610**	23,159
Supplemental cash flow information		
Interest paid	**165**	143
Income tax paid	**22,790**	28,706

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007

(000s, except per share data)

1. Description of Business

Pason Systems Inc. (the "Company") designs and manufactures specialized proprietary instrumentation for rent on land-based drilling and service rigs.

2. Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries, Pason Systems Corp., Pason US Holdings Corp., Pason de Mexico S.A. de C.V. , Pason Australia Pty Limited and Pason Systems USA Corp. and Pason US Financial Corp., both wholly-owned subsidiaries of Pason US Holdings Corp. All inter company transactions have been eliminated.

3. Changes in Accounting Policies

Significant Accounting Changes

(a) On January 1, 2008, the Company adopted the new Section 1535 "Capital Disclosures" standard issued by the Canadian Institute of Chartered Accountants ("CICA"). This section establishes standards for disclosing information about the Company's capital and how it is managed. The impact of this change is described in Note 10 to the Consolidated Financial Statements as of December 31, 2008.

(b) On January 1, 2008, the Company also adopted the new Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" which replaced Section 3861, "Financial Instruments - Disclosure and Presentation." Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. The additional disclosures required as a result of the adoption of these standards are included in Note 13.

(c) On October 23, 2008, the shareholders of the Company voted in favour of the cancellation of the existing stock option plan and to replace it with a revised stock option plan. The overall plan revisions resulted in a change in accounting policy from the previous fair value method using the Black-Scholes option pricing model to a combination of this same method and the intrinsic value method. The Company implemented this change on a prospective basis in the fourth quarter of 2008.

Certain comparative figures have been reclassified to conform to the current year's presentation.

4. Significant Accounting Policies

Cash and Cash Equivalents

Cash reflects cash on deposit, cash held in trust and bank indebtedness and investments with maturities of 90 days or less at the date of investment.

Investments

Investments are recorded at cost. If there are other than temporary declines in value, investments are recorded at realizable value.

Capital Assets

Capital assets include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken.

All rental equipment, except for the assets described below, is recorded at cost and is depreciated using the declining-balance method at an annual rate of 20% with no residual value.

Geological services equipment is recorded at cost and is depreciated on a straight-line basis over 60 months. Satellite systems and electronic cables are recorded at cost and depreciated on a straight-line basis over 36 months.

Leasehold improvements are amortized on a straight-line basis over the terms of the respective leases, which range from two to ten years.

All remaining capital assets are recorded at cost and are depreciated using the declining-balance method at the following annual rates with no residual value:

Trucks and truck boxes	30%
Other	20%

Research and Development

The Company expenses all research expenditures as incurred. Development costs are expensed as incurred unless they meet the criteria for deferral and amortization under GAAP. Investment tax credits are recorded only when received and are netted against the related R&D costs.

Development costs incurred on new product development projects, which in management's view have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and amortized over three years commencing in the year in which the new products begin generating rental revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed.

Foreign Currency Translation

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end exchange rate and revenues and expenses are translated at average semi-monthly exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are included in the consolidated statements of Other Comprehensive Income ("OCI").

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period. Advances made to subsidiaries for which the settlement is not planned or anticipated in the foreseeable future are considered part of the net investment. Accordingly, unrealized gains and losses from these advances are recorded in the Consolidated Statements of Other Comprehensive Income.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period that the change is substantively enacted, based on the rates in effect when the temporary differences are expected to reverse. Investment tax credits are recorded when received.

Revenue Recognition

Revenue is recognized during the reporting period based on completion of each rental day for products and services, provided collectibility is reasonably assured.

Impairment of Long-Lived Assets

The Company determines whether the net carrying amount of capital assets is recoverable from future undiscounted cash flows at least annually at year-end or when indicators of impairment exist. The Company's operations, along with the market and business environment, are continually monitored. Judgements and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the capital asset. If the total of the undiscounted future cash flows, excluding finance charges, is less than the carrying amount of the capital assets, asset impairment is recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current environment between willing parties, and is estimated by calculating the present value of expected future cash flows related to the asset.

Stock-Based Compensation Plans

The Company has a stock option plan that allows employees and directors to elect to receive either common shares or a cash settlement in exchange for stock options exercised. This plan is accounted for using a combination of the fair value method using the Black-Scholes option pricing model and the intrinsic value method as the related liability is expected to be substantially settled in cash. The liability is accrued based upon the excess of the market price of the Company's common shares over the option strike price. This may result in charges or credits to contributed surplus or compensation expense. Any consideration received on the exercise of stock options for common shares is credited to capital stock.

In the fourth quarter of 2008, the Company introduced a restricted share unit ("RSU") plan for employees and directors whereby RSU holders will receive a cash settlement based upon the number of outstanding RSUs multiplied by the prevailing market price of the Company's common shares on the RSU vesting date. An RSU liability is accrued and adjusted each quarter based upon the current market price of the Company's common shares.

Compensation expense for the stock option plan and the RSU plan is accrued over the respective three year vesting periods.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the amortization period for capital assets, the valuation of capital assets, the assessment of the viability of new product development projects, the provision for doubtful accounts receivable, stock-based compensation assumptions and estimates in the provision for future income taxes. Actual results could differ from these estimates.

Earnings Per Share

Basic earnings per share are calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per share, which reflect the potential dilution that would occur if in-the-money stock options were exercised, is calculated using the treasury stock method.

Future Accounting Pronouncements

The CICA issued Section 3064 "Goodwill and Intangible Assets" replacing Section 3450, "Research and Development Costs." The new standard, which the Company will adopt on January 1, 2009, establishes guidelines for the recognition, measurement, presentation and disclosure of research and development costs. Management is in the process of assessing the impact of this new standard and believes it will not have a material impact on the Company's consolidated financial statements.

The CICA issued Section 1601 "Consolidated Financial Statements." This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new section on the consolidated financial statements.

Canada's Accounting Standards Board ratified a plan that will result in GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. Management has performed a preliminary gap analysis and highlighted areas where its current Canadian accounting practices differ from IFRS. The impact on the Company's consolidated financial statements has not yet been determined.

5. Investments

During the second quarter of 2008, the Company sold its investment in a privately held company and realized a gain of $999 (Note 11).

During the fourth quarter of 2008, the Company made a portfolio investment in preferred shares of a private company that is recorded at a cost of $2,802. There is neither a quoted price nor an active market for these shares, and therefore, this investment is carried at cost.

6. Capital Assets

	Cost	Accumulated Depreciation and Amortization	Net Book Value
	($)	($)	($)
2008			
Parts and raw materials	**2,916**	--	**2,916**
Rental equipment	**360,753**	**170,537**	**190,216**
Other	**32,250**	**18,040**	**14,210**
	395,919	**188,577**	**207,342**
2007			
Parts and raw materials	8,069	--	8,069
Rental equipment	282,208	109,987	172,221
Other	26,548	14,218	12,330
	316,825	124,205	192,620

Depreciation and amortization expense recorded with respect to capital assets in 2008 was $56,023 (2007 – $44,407). Included in depreciation and amortization expense are losses on the disposal of assets in the amount of $5,246 (2007 – $2,420). No impairment of capital assets has been recorded for 2008 or 2007.

The Company out-sources most of its manufacturing to third party contract manufacturers. During 2007, the Company transferred parts and raw materials at cost to third party contract manufacturers to be utilized in the Company's future capital expenditure program. The remaining balances owing from these contract manufacturers are recorded as a component of accounts receivable.

7. Deferred Development Costs

	2008	2007
	($)	($)
Accumulated costs, beginning of year	**9,904**	9,372
Additional costs deferred during the year	**5,120**	1,948
Investment tax credits received	**(1,114)**	(1,394)
Non commercial project costs expensed during the year	**(29)**	(22)
	13,881	9,904
Accumulated amortization	**(4,902)**	(5,206)
Net deferred development costs, end of year	**8,979**	4,698

Amortization expense is comprised of:

Years Ended December 31,	2008	2007
	($)	($)
Amortization of costs	**480**	554
Amortization of investment tax credits	**(784)**	(2,164)
	(304)	(1,610)

8. Credit Facility

During 2008, the Company renewed its 364-day committed revolving credit facility and reduced the amount available to $5.0 million. Interest is payable monthly and is based on either the lenders' prime rate, U.S. base rate loans, Bankers' Acceptance rates or at the London Inter-Bank Offered Rate (LIBOR) plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness offset by any excess cash balances.

The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp. and Pason Systems USA Corp..

At December 31, 2008, an amount of $nil (2007 - $11,775) had been drawn on the facility.

The Company is subject to certain financial covenants that were met throughout 2008.

The effective average interest rate in 2008 on all borrowings under the credit facility was 5.75%.

The Company's U.S. subsidiary cancelled its US$1,500 revolving line of credit during the year.

9. Share Capital

Authorized

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

Issued

Common shares

	Shares	Amount
	(#)	($)
Balance, December 31, 2006	78,738	38,085
Exercise of stock options	1,608	11,365
Contributed surplus adjustment on exercise of stock options	--	2,055
Balance, December 31, 2007	**80,346**	**51,505**
Exercise of stock options	**1,979**	**17,356**
Shares purchased and cancelled	**(869)**	**(740)**
Contributed surplus adjustment on exercise of stock options	**--**	**3,396**
Balance, December 31, 2008	**81,456**	**71,517**

Stock Option Plan

At December 31, 2008, 6,753 stock options were outstanding for common shares at exercise prices ranging from $6.85 to $17.75 per share, expiring between 2009 and 2013 as follows:

	2008		2007	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	($)	(#)	($)
Outstanding, beginning of year	**6,908**	**11.91**	6,889	10.84
Granted	**2,592**	**11.85**	2,201	12.34
Exercised	**(2,293)**	**8.58**	(1,608)	7.07
Forfeited	**(454)**	**14.06**	(574)	14.20
Outstanding, end of year	**6,753**	**12.88**	6,908	11.91
Exercisable, end of year	**2,354**		2,898	
Available for grant, end of year	**1,393**		1,127	

All options are issued at market price and vest over three years. The following table summarizes the life of options issued:

Date of issuance	**Years**
Prior to November 2004	**5.00**
November 2004 through October 2006	**3.17**
November 2006 through October 2008	**3.50**
November 2008 and thereafter	**5.00**

The following table summarizes information about stock options outstanding to December 31, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
($)	(#)	(Years)	($)	(#)	($)
6.85 – 11.79	158	0.57	7.70	158	7.70
11.80 – 12.00	2,551	4.91	11.80	--	11.80
12.01 – 13.00	1,937	2.41	12.18	654	12.18
13.01 – 17.75	2,107	0.88	15.20	1,542	15.10
	6,753	2.84	12.88	2,354	13.79

The total number of options outstanding must not exceed 10% of the total common shares outstanding.

All stock options granted to employees and directors were accounted for using the fair value method estimated on the date of grant using the Black-Scholes option pricing model. This method was in effect until the shareholders approved adjustments to the stock option plan on October 23, 2008. As of this date, stock options have been accounted for using a combination of both the fair value and intrinsic value methods. Stock-based compensation expense arising from the stock option plan of $7,068 (2007 – $5,248) was recorded in the Consolidated Statements of Earnings.

Weighted average assumptions for the fair value method employed during 2008 were as follows:

Year Ended December 31,	2008
Fair value of stock options ($)	2.93
Forfeiture rate (%)	15.86
Risk - free interest rate (%)	3.85
Expected option life (years)	3.12
Expected volatility (%)	31.99
Annual dividends per share (%)	1.00

Contributed Surplus

Amounts recorded to contributed surplus are as follows:

Years Ended December 31,	2008	2007
	($)	($)
Contributed surplus, beginning of year	10,323	7,130
Stock-based compensation expense	5,176	5,248
Stock options exercised	(3,396)	(2,055)
Adoption of intrinsic value method	(3,269)	--
Contributed surplus, end of year	8,834	10,323

Restricted Share Unit (RSU) Plan

In November of 2008 the Company introduced an RSU program for employees and directors. At December 31, 2008, 638 RSUs were outstanding. All RSU's vest over three years and will result in a cash payment to holders based upon the corresponding future market value of the Company's common shares. Stock-based compensation expense arising from the RSU plan of $457 (2007 – $nil) was recorded in the Consolidated Statements of Earnings and the corresponding liability is recorded on the December 31, 2008 Consolidated Balance Sheets.

Stock-based Compensation Expense and Liability

The stock option and RSU plans can be summarized as follows:

Years ended December 31,	2008	2007
	($)	($)
Stock options	**7,068**	5,248
RSUs	**457**	--
Stock-based compensation expense	**7,525**	5,248

As at December 31,	2008	2007
	($)	($)
Stock options	**2,407**	--
RSUs	**249**	--
Current portion of stock-based compensation liability	**2,656**	--
Stock options	**1,267**	--
RSUs	**208**	--
Long-term portion of stock-based compensation liability	**1,475**	--
Total stock-based compensation liability	**4,131**	--

Purchase of Common Shares

During 2008, the Company began purchasing common shares under a normal course issuer bid. As of December 31, 2008, 869 common shares at an average price of $12.55 per share have been purchased and cancelled. This resulted in share capital being reduced by $740 and the remaining $10,168 was charged to retained earnings. The Company is authorized to purchase and cancel up to 3,000 common shares before the bid terminates on March 23, 2009. The daily purchase limit is 64 common shares.

Common share dividends

During 2008, the Company declared dividends of $17,964 (2007 - $12,800) or $0.22 per common share (2007 - $0.16). Of this amount $9,777 (2007 - $6,822) is payable at year end and the Company has transferred these funds to the transfer agent to be held in trust until the dividend payment is made in January 2009.

10. Capital Disclosures

The Company's strategy is to carry a flexible capital base to maintain investor, market and creditor confidence and to sustain future business development opportunities. The Company manages its capital structure based on ongoing changes in economic conditions and related risk characteristics of its underlying assets.

The Company considers its capital structure to include shareholders' equity, long-term debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue or re-purchase shares, adjust its dividend rate, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

The Company's share capital is not subject to external restrictions; however the Company's committed revolving credit facility includes a debt to earnings before interest, income tax, depreciation and amortization expense covenant. The Company was compliant with this covenant at December 31, 2008.

There were no changes in the Company's approach to capital management during the year.

11. Other Expenses/(Income)

The following other line items were recognized in the Consolidated Statements of Earnings and Retained Earnings for the year ended December 31:

	2008	2007
	($)	($)
Foreign exchange (gain) loss	**(3,701)**	383
Provision for automatic driller lawsuit settlement (Note 18)	**16,924**	--
Gain on the sale of investment	**(999)**	--
Other expenses	**12,224**	383

12. Provision for Income Taxes

The provision for income taxes, including future income taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 29.50% (2007 – 32.12%). In addition, Pason Systems USA Corp. is subject to federal and state statutory tax rates of approximately 40% for both 2008 and 2007. The main differences are as follows:

	2008	2007
	($)	($)
Earnings before income taxes	**81,430**	79,900
Expected income tax at statutory rate	**24,022**	25,664
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	**720**	379
Stock-based compensation	**863**	(547)
Non-taxable dividends	**(2,494)**	(1,819)
Foreign exchange	**1,500**	--
Losses not previously recognized	**(3,281)**	--
Expenses not deductible for tax purposes and other items	**(1,221)**	1,171
Provision for income tax expense	**20,109**	24,848

The provision for future income taxes arises from temporary timing differences in the recognition of revenue and expenses for income tax and accounting purposes. The Company's future income tax assets and liabilities are as follows as of December 31:

	2008	2007
	($)	($)
Future income tax assets		
Current		
Deferred charges	**8,238**	420
Other	**915**	603
	9,153	1,023
Long-term		
Net operating losses carried forward	**5,000**	--
Future income tax liabilities		
Capital assets	**18,896**	7,407
Foreign exchange	**1,500**	--
	20,396	7,407

The Company has available U.S. net operating losses of US$10,200, the benefit of which has been recognized in the Consolidated Financial Statements. These losses can be used to reduce future income taxes otherwise payable and expire in 2027 (US$6,700) and 2028 (US$3,500).

13. Financial Instruments and Risk Management

Financial Instruments

All financial instruments are measured in the Company's balance sheet at fair value except loans and receivables, held to maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement will depend upon the initial classification. Changes in value of instruments held for trading are recorded in earnings. Gains and losses on available for sale instruments are recorded in OCI until settled at which time the amounts would be included in earnings. All other instruments are recorded at amortized cost.

The Company's financial instruments consist of cash, accounts receivable, investments, bank indebtedness and accounts payable and accrued liabilities. The following classifications were in effect for 2008:

- Cash and cash equivalents are classified as financial assets held for trading.
- Accounts receivable are classified as loans or receivables.
- Investments are classified as available for sale.
- Bank indebtedness, accounts payable and accrued liabilities are all classified as other financial liabilities.

The carrying amounts for all of the Company's financial instruments approximate their fair values due to the short term nature of these items.

Embedded derivatives are separated and measured at fair values if certain guidelines are met. Management has reviewed contracts and determined that the Company does not have embedded derivatives that require separate accounting treatment.

Industry and Seasonality Risk

The major area of uncertainty for the Company is that the demand for its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of the Company and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices.

In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. The Company continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and internationally where these factors are less likely to influence activity.

Credit Risk

Credit risk refers to the possibility that a customer will fail to meet its contractual obligations. Credit risk arises from the Company's accounts receivable balances which are predominantly with customers who explore for and develop oil and natural gas reserves in Canada and the United States. The Company has a process in place which assesses the credit worthiness of its customers as well as monitoring the age and balances outstanding on an ongoing basis. In addition, the Company's services are a minor component when looking at the overall cost of drilling a well, reducing credit risk accordingly.

Payment terms with customers are 30 days from invoice date however industry practice can extend these terms. As at December 31, 2008, the Company had $5,520 in accounts receivable balances greater than 90 days past due and had recorded an allowance for doubtful accounts of $2,556. The balance of the Company's allowance for doubtful accounts increased by $788 during 2008.

Foreign exchange risk

The Company operates internationally and is primarily exposed to exchange risk relative to the U.S. dollar.

The Canadian operations are exposed to currency risk on U.S. denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the Consolidated Statements of Earnings.

The Company's self-sustaining U.S. subsidiary exposes the Company to exchange rate risk on the translation of its financial assets and liabilities to Canadian dollars for consolidation purposes. Adjustments arising when translating the U.S. subsidiary into Canadian dollars are reflected in the Consolidated Statements of Comprehensive Income as unrealized foreign currency translation adjustments.

The Company has not hedged either one of these risks.

For 2008, had the Canadian dollar weakened or strengthened by 1% against the U.S. dollar, with all other variables held constant, earnings and OCI would have been impacted as follows:

	Year ended December 31, 2008	
	Impact to Earnings	**Impact to Other Comprehensive Income**
	($)	($)
1% decrease in value of Canadian dollar	13	1,637
1% increase in value of Canadian dollar	(13)	(1,637)

Interest rate risk

The Company is exposed to changes in interest rates with respect to its credit facility. Management believes this risk to be minor given the small amounts drawn on the facility.

14. Per Share Amounts

Basic earnings per share figures have been calculated using 81,426 (2007 – 79,586) weighted average number of common shares outstanding during the year. Diluted amounts per share have been calculated based on the treasury stock method using the weighted average number of common shares and dilutive equity instruments representing an additional 510 shares (2007 – 1,044) for a total of 81,936 shares (2007 – 80,630) used to calculate diluted earnings per share figures.

Excluded from the calculation of diluted earnings per share were weighted average options outstanding of 1,973 shares (2007 – 2,173) as the options' exercise price was greater than the average market price of the common shares for the year.

15. Segmented Information

The Company operates in three geographic segments within one industry segment. Rental services are provided in Canada, the United States and internationally (Latin America and Australia). The amounts related to each segment are as follows for the years ended December 31:

	Canada ($)	United States ($)	International ($)	Total ($)
2008				
Revenue	**107,753**	**174,905**	**9,870**	**292,528**
Operating costs	**37,378**	**74,046**	**2,449**	**113,873**
Depreciation and amortization	**25,202**	**27,916**	**2,601**	**55,719**
Segment operating profit	**45,173**	**72,943**	**4,820**	**122,936**
Research and development				**12,888**
Stock-based compensation				**7,525**
Corporate services				**5,977**
Manufacturing and distribution				**2,683**
Interest				**209**
Other expenses				**12,224**
Income taxes				**20,109**
Earnings				**61,321**
Total assets	**217,075**	**191,946**	**17,995**	**427,016**
Capital expenditures	**5,747**	**44,523**	**6,022**	**56,292**
2007				
Revenue	95,647	133,147	7,645	236,439
Operating costs	32,955	55,726	1,356	90,037
Depreciation and amortization	22,536	18,818	1,443	42,797
Segment operating profit	40,156	58,603	4,846	103,605
Research and development				9,566
Stock-based compensation				5,248
Corporate services				5,729
Manufacturing and distribution				2,636
Interest				143
Other expenses				383
Income taxes				24,848
Earnings				55,052
Total assets	161,782	128,348	12,463	302,593
Capital expenditures	31,861	39,309	5,445	76,615

During 2008, the Company reclassified corporate services and manufacturing and distribution costs. These costs were previously included in the Canadian operating results. This provides a better matching of these corporate-wide costs. The 2007 comparatives have been reclassified accordingly.

16. Commitments

Minimum future lease payments required primarily for operating leases for certain facilities and vehicles payable over the next five years are as follows:

	Amount
	($)
2009	6,079
2010	4,617
2011	3,263
2012	2,524
2013 and thereafter	2,530

At the end of 2007, the Company signed a three year outsourcing agreement with a supplier to assist its software development team. Either party can terminate the agreement with six months notice. The annual costs for 2009 are anticipated to be approximately $4,200.

17. Non-Cash Working Capital

Changes in non-cash working capital are comprised of the following:

Years Ended December 31,	**2008**	2007
	($)	($)
Decrease (increase) in accounts receivable	**3,222**	(8,261)
Decrease (increase) in prepaid expenses	**229**	(343)
Increase (decrease) in accounts payable and accrued liabilities	**19,047**	(3,802)
Increase in income taxes recoverable	**(9,522)**	(9,362)
Increase in RSU liability	**457**	--
	13,433	(21,768)
Comprised of the following activities:		
Operating	**15,031**	(18,794)
Investing	**(1,598)**	(2,974)
	13,433	(21,768)

18. Contingencies

Since late 2003, the Company has defended its position in patent infringement lawsuits in Canada and the United States regarding the Company's automatic driller. In the U.S. case in 2004, the trial court refused to grant the requested injunction to prevent the Company from renting its automatic driller. In 2006, a Federal Appeals Court ruled that the trial court had misconstrued the language of one of the claims in the patent at issue and remanded the case to the trial court to hold a full trial on the merits of the claim of infringement and the Company's defences, including that the patent in question is invalid and that there is no infringement. Trial on the U.S. lawsuit concluded on November 6, 2008. The jury determined Pason's automatic driller infringed three claims of the patent at issue, denied the Company's claim that the patent was invalid, and awarded damages in the amount of US$14,300. The Company has accrued this amount in the 2008 consolidated financial statements and has filed post-trial motions with the Court, seeking to overturn the jury's verdict for lack of sufficient evidence on both infringement and validity. The plaintiff has also filed post-trial motions seeking an enhancement of the damages award based upon the jury's finding that the infringement was willful, and a further motion to enjoin Pason from marketing its automatic driller. The Company is currently awaiting the Trial Court's decisions on these matters, and will evaluate the appeal options, if necessary, following those decisions.

In the Canadian case, which is not likely to get to a trial until 2010 at the earliest, management's assessment of the outcome continues to be that the asserted claims of the patent are not valid, and/or the Company does not infringe on any valid claims, and as a result, the Canadian litigation is not expected to have a significant adverse impact on the Company's financial position or operations. The outcome of the U.S. case does not bind a Canadian Court. Accordingly, no amount has been accrued for any potential loss under the Canadian case in the consolidated financial statements at December 31, 2008.

The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

HISTORICAL REVIEW
Selected Financial Data

Years Ended December 31,

(000s, except per share data)	**2008** ($)	2007 ($)	2006 ($)	2005 ($)	2004 ($)	2003 ($)	2002 ($)	2001 ($)	2000 ($)	1999 ($)
Operating Results										
Revenue	**292,528**	236,439	240,584	175,747	122,212	91,801	55,311	63,016	42,144	24,668
Expenses										
Rental services	**96,948**	73,862	63,966	45,661	33,468	23,367	17,159	13,641	9,290	5,649
Geological services	**9,652**	9,196	8,967	6,532	4,954	4,283	4,608	6,262	5,326	3,852
Manufacturing and distribution	**2,683**	2,636	9,459	6,422	3,579	2,835	2,359	2,551	1,900	1,426
Corporate services and local administration	**13,250**	12,708	6,699	4,076	3,062	2,647	2,427	2,415	2,826	1,867
Research and development	**12,888**	9,566	8,255	6,379	4,995	3,663	3,009	2,750	2,006	1,403
Stock-based compensation	**7,525**	5,248	4,597	2,595	1,290	170	--	--	--	--
Depreciation and amortization	**55,719**	42,797	39,923	27,198	18,992	15,017	8,913	7,341	5,340	2,898
EBITDA[1]	**144,883**	128,088	143,238	106,677	72,154	55,005	25,749	35,396	20,798	10,472
As a % of revenue	**49.5**	54.2	59.5	60.7	59.0	59.9	46.6	56.2	49.4	42.6
Per share-basic	**1.78**	1.61	1.84	1.40	0.97	0.76	0.36	0.52	0.31	0.16
Funds flow from operations [1]	**124,726**	103,766	107,451	79,369	54,640	40,463	18,534	24,941	14,797	7,966
Per share – basic	**1.53**	1.30	1.38	1.04	0.73	0.56	0.26	0.36	0.22	0.12
Earnings	**61,321**	55,052	64,531	50,280	33,842	24,596	9,606	15,437	8,117	4,084
Per share – basic	**0.75**	0.69	0.83	0.66	0.46	0.34	0.14	0.23	0.12	0.06
Capital expenditures	**56,292**	76,615	71,233	76,064	41,518	34,041	14,069	22,921	23,419	10,851
Financial Position										
Current assets	**202,893**	102,275	93,846	66,527	39,024	31,064	22,728	20,276	18,150	11,461
Total assets	**427,016**	302,593	270,860	216,306	139,012	112,289	90,191	82,252	64,451	40,193
Working capital	**152,337**	77,806	58,495	23,684	21,540	9,235	4,295	5,135	1,416	3,283
Long-term facility	**--**	--	--	4,286	--	--	115	395	635	--
Future income tax	**6,243**	6,384	4,300	6,018	6,781	6,558	6,268	6,284	3,800	2,159
Shareholders' equity	**354,589**	270,717	231,209	163,159	114,747	83,902	65,878	53,941	35,448	26,261
Return on shareholders' equity	**20%**	22%	33%	36%	34%	33%	16%	35%	26%	17%
Common Share Data										
Common shares outstanding *(#)*										
At December 31	**81,456**	80,346	78,738	77,045	75,530	73,784	71,612	69,744	67,156	65,184
Weighted average	**81,426**	79,586	77,899	76,240	74,658	72,700	70,992	68,588	66,416	65,028
Share trading										
High ($)	**18.40**	17.93	19.20	15.13	9.90	6.38	3.34	2.59	2.44	1.73
Low ($)	**8.00**	11.51	13.11	8.86	5.75	2.91	2.16	1.50	1.38	0.56
Close ($)	**14.05**	12.49	13.26	14.45	9.25	6.30	2.99	2.28	1.74	1.56
Volume (#)	**36,505**	34,560	22,804	22,884	36,900	18,540	21,916	17,692	12,932	13,064

(1) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, stock-based compensation expense, future income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. Return on shareholders' equity is calculated as earnings over the simple average of the beginning and ending shareholders' equity. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

pason

corporate information

Directors

Harold R. Allsopp, MBA, CA (2)(3)
President
Habede Holdings Ltd.
Calgary, Alberta

G. Allen Brooks, MSc, CFA(4)(6)(8)
President
G. Allen Brooks, LLC
Houston, Texas

Murray L. Cobbe, Eng.
Diploma (Petroleum) (2)(5)(7)
President & Chief Executive Officer
Trican Well Service Ltd.
Calgary, Alberta

James D. Hill, BSc, CA
Chairman of the Board and
President & Chief Executive Officer
Pason Systems Inc.
Calgary, Alberta

James B. Howe, CA (1)(4)(8)
President
Bragg Creek Financial Consultants Ltd.
Calgary, Alberta

Peter S. Mackechnie, CA (6)
Private Investor
Vail, Colorado

(1) Audit Committee Chairman
(2) Audit Committee Member
(3) Compensation Committee Chairman
(4) Compensation Committee Member
(5) Corporate Governance Committee Chairman
(6) Corporate Governance Committee Member
(7) Special Dividend Committee Chairman
(8) Special Dividend Committee Member

Officers & Key Personnel

Pason Systems Inc. /
Pason Systems Corp.

Jim Hill
President & Chief Executive Officer

Bob Rodda
Chief Operating Officer

Jim Glasspoole
Chief Financial Officer

David Holodinsky
General Manager Canada

Lucy Tomie
Controller

David Elliott
Treasurer

Dean Tremaine
R&D Manager

Joe Seeman
Manufacturing Manager

James Parks
Quality Assurance Manager

Ken Ledger
Risk Manager

Ron Dudar
Human Resources Manager

Pason Systems USA Corp.

Jim Hill
Chairman of the Board

Greg Lindsay
President and General Manager USA

Lee Maassen
Controller

Jerry Aberle
Secretary

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Auditors

Deloitte & Touche LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Legal Counsel

Gowling Lafleur Henderson LLP
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI

Eligible Dividend Designation

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be "eligible" dividends.

Annual Meeting

The Annual General Meeting of the Shareholders of Pason Systems Inc. will be held on Monday, May 11, 2009 at 3:30 p.m. (Calgary time) in the offices of Pason Systems Inc., 6120 Third Street S.E., Calgary, Alberta. Shareholders who are unable to attend the meeting are requested to complete and return the Instrument of Proxy to valiant Trust Company at their earliest convenience.

tech•nol•o•gy (tĕk-nŏl'u-jē) -Noun
The scientific method and material used to achieve a commercial or industrial objective.

de•ployed [di-ploi-ed]
-verb
Arranged in a position of readiness, or moved strategically or appropriately.

sim•ply [simp-lee]
-Adverb
Easy to understand, deal with, use, etc.: a simple matter; simple tools.

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Technology • Deployed • Simply

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